



BIOEXX SPECIALTY PROTEINS LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

BIOEXX SPECIALTY PROTEINS LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

INDEX	PAGES
Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations, Comprehensive Loss and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 - 29



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
BIOEXX SPECIALTY PROTEINS LTD.

We have audited the accompanying consolidated financial statements of BioExx Specialty Proteins Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BioExx Specialty Proteins Ltd. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 7, 2011

	2010	2009
	\$	\$
ASSETS		
CURRENT		
Cash	16,628,725	14,101,171
Restricted cash (Note 3)	78,868	-
Accounts receivable	309,320	590,915
Sales tax recoverable	408,085	672,193
Amounts receivable	-	49,796
Investment tax credits receivable (Note 4)	2,328,332	943,425
SR&ED credits receivable (Note 5)	298,374	76,689
Prepaid expenses	95,979	74,094
Inventory (Note 6)	<u>164,113</u>	<u>198,715</u>
	20,311,796	16,706,998
RESTRICTED CASH EQUIVALENT (Note 3)	1,000,000	1,000,000
LONG-TERM PREPAID EXPENSES	55,370	46,261
EQUIPMENT DEPOSITS (Note 7)	854,628	4,214,222
INTANGIBLE ASSETS (Note 8)	757,311	583,505
PROPERTY, PLANT AND EQUIPMENT (Note 9)	<u>63,155,737</u>	<u>20,261,267</u>
	<u>86,134,842</u>	<u>42,812,253</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Notes 9,15(a) and 16(f))	5,334,557	5,471,116
Current portion of long-term debt (Note 10)	749,459	377,382
Current portion of leasehold inducement	26,767	20,800
Derivative instruments (Notes 3(i) and 17(c)(v))	<u>53,016</u>	<u>-</u>
	6,163,799	5,869,298
LONG-TERM DEBT (Note 10)	6,516,823	3,675,249
LEASEHOLD INDUCEMENT	<u>-</u>	<u>26,811</u>
	<u>12,680,622</u>	<u>9,571,358</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Notes 11(a), (b) and (c))	98,385,117	46,723,916
WARRANTS (Note 11(e))	-	471,221
CONTRIBUTED SURPLUS (Note 11(f))	7,108,597	3,030,083
DEFICIT	<u>(32,039,494)</u>	<u>(16,984,325)</u>
	<u>73,454,220</u>	<u>33,240,895</u>
	<u>86,134,842</u>	<u>42,812,253</u>

COMMITMENTS, CONTINGENCIES AND GOING CONCERN (Notes 1, 10 and 16)

APPROVED ON BEHALF OF THE BOARD

Signed "Chris Carl", Director

Signed "John MacDonald", Director

**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31,**

	2010 \$	2009 \$
REVENUE	3,330,137	4,170,507
COST OF GOODS SOLD	<u>4,144,804</u>	<u>5,493,600</u>
Gross loss	<u>(814,667)</u>	<u>(1,323,093)</u>
Other plant expenses	1,627,541	913,065
Amortization of plant and plant equipment	<u>795,864</u>	<u>347,304</u>
	<u>2,423,405</u>	<u>1,260,369</u>
Plant loss	<u>(3,238,072)</u>	<u>(2,583,462)</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
Stock-based compensation	4,382,783	1,273,097
Office and general (Notes 15(b) and (c))	3,415,685	2,171,120
Research and development (Note 5)	1,807,928	998,103
Plant commissioning and start-up (Note 16(f))	1,117,624	359,151
Interest on long-term debt	469,348	197,197
Sales and marketing	351,728	403,926
Amortization of equipment	298,544	222,636
Amortization of intangible assets	<u>53,447</u>	<u>34,425</u>
	<u>11,897,087</u>	<u>5,659,655</u>
Loss before the undernoted	(15,135,159)	(8,243,117)
Add: Interest income	141,892	76,311
Less: Loss on derivative instruments (Note 17(c)(v))	<u>(61,902)</u>	<u>-</u>
Net loss before non-controlling interest	(15,055,169)	(8,166,806)
Non-controlling interest (Note 11(b))	<u>-</u>	<u>(5,188)</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(15,055,169)	(8,171,994)
Deficit, beginning of year	(16,984,325)	(8,705,152)
Adjustment of non-controlling interest (Note 11(b))	-	(100,000)
Dividends paid (Note 11(b))	<u>-</u>	<u>(7,179)</u>
Deficit, end of year	<u>(32,039,494)</u>	<u>(16,984,325)</u>
NET LOSS PER SHARE - basic and diluted	<u>(0.09)</u>	<u>(0.06)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted	<u>174,043,715</u>	<u>129,276,879</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2010 \$	2009 \$
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the year	(15,055,169)	(8,171,994)
Charges not involving cash:		
Non-controlling interest	-	5,188
Stock-based compensation	4,382,783	1,273,097
Leasehold inducement	(20,844)	(15,227)
Accretion of deferred financing charges	7,163	5,857
Accrued interest on long-term debt	171,235	31,948
Loss on disposal of equipment	-	2,193
Unrealized loss on derivative instruments (Note 17(c)(v))	53,016	-
Amortization of property, plant and equipment and intangible assets	<u>1,147,855</u>	<u>604,365</u>
	(9,313,961)	(6,264,573)
Changes in non-cash working capital balances (Note 13)	<u>2,055,703</u>	<u>(231,472)</u>
Cash flows used in operating activities	<u>(7,258,258)</u>	<u>(6,496,045)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds of long-term debt	4,029,507	3,638,622
Repayments of long-term debt	(200,070)	(14,676)
Redemption of non-controlling interest (Note 11(b))	-	(100,000)
Dividends paid on preference shares (Note 11(b))	-	(7,179)
Exercise of options and warrants	2,543,976	8,675,413
Private placements and public offerings	51,873,625	20,304,000
Share issuance costs	<u>(3,531,890)</u>	<u>(1,498,587)</u>
Cash flows from financing activities	<u>54,715,148</u>	<u>30,997,593</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Equipment deposits, net	(1,360,840)	(1,949,073)
Increase in long-term prepaid expenses	(9,109)	(34,730)
Increase in intangible assets	(266,404)	(169,924)
Increase in restricted cash	(78,868)	(900,000)
Proceeds on disposal of equipment	-	500
Additions of property, plant and equipment	<u>(43,214,115)</u>	<u>(11,549,449)</u>
Cash flows used in investing activities	<u>(44,929,336)</u>	<u>(14,602,676)</u>
Increase in cash	2,527,554	9,898,872
Cash, beginning of year	<u>14,101,171</u>	<u>4,202,299</u>
Cash, end of year	<u>16,628,725</u>	<u>14,101,171</u>

SUPPLEMENTAL CASH FLOW INFORMATION (Note 14)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. NATURE OF OPERATIONS AND GOING CONCERN

BioExx Specialty Proteins Ltd. (the "Company") is a development stage company as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11. The Company is involved in the development and commercialization of extraction technology, which can be used to extract various active ingredients from organic and inorganic materials. The Company's primary focus is on the production of specialty proteins from canola and other oilseed feedstocks.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

These consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with that of the previous year, except as outlined below. Outlined below are those policies considered particularly significant:

(a) Use of Estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation and warrants, carrying value of intangible assets and property, plant and equipment, investment tax credits and the valuation of tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

(b) Basis of Consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

(c) Cash:

Cash consists of bank balances and overnight paper. Deposits are held in Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

(d) Inventory:

Inventory is valued at the lower of cost, determined on the first-in, first-out method, and net realizable value. Inventory costs include raw materials, direct labour, utilities, plant overhead expenses and amortization of plant and plant equipment.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, Plant and Equipment:

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided at per annum rates which are expected to amortize the cost of the property, plant and equipment over its estimated useful life.

Building	Straight-line method - 25 years
Computer equipment	Straight-line method - 3 years
Computer software	Straight-line method - 3 years
Equipment	Straight-line method - 5 to 15 years
Furniture and fixtures	Straight-line method - 5 years
Land improvements	Straight-line method - 15 years
Leasehold improvements	Straight-line method over the term of the lease - 5 years
Website	Straight-line method - 5 years

When events or circumstances indicate potential impairment, long-lived assets such as property, plant and equipment are written-down to the fair value if the net carrying amount of the asset exceeds the net recoverable amount, calculated as the sum of the undiscounted cash flows related to the asset.

(f) Intangible Assets:

Patent rights represent the Company's exclusive right to use certain patented technologies owned by the Company and certain technologies for which the Company has pending patent applications. Patents that have been granted expire in 2020 and 2027. Patents are amortized on a straight-line basis over 20 years. Legal fees relating to patents are capitalized and amortized on a straight-line basis over the life of the patent.

Trademarks are amortized on a straight-line basis over 15 years. Legal fees relating to trademarks are capitalized and amortized on a straight-line basis over the life of the trademark.

Regulatory Certifications represent the Company's rights and certifications to sell its food-grade canola proteins in certain countries, such as that represented by its self-affirmed GRAS (Generally Regarded As Safe) status under the regulations of the U.S. Food and Drug Administration. Regulatory Certification expenditures, which include legal and consulting fees, are capitalized and are amortized over a 20 year period from the date the Regulatory Certifications are available for use.

When events or circumstances indicate potential impairment, intangible assets are written down to their fair value if the net carrying amount of the asset exceeds the net recoverable amount, calculated as the sum of the undiscounted cash flows related to the asset.

(g) Revenue Recognition:

Revenues are recognized when risks and rewards of ownership have transferred to the customer and the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, selling price is fixed or determinable and collection is reasonably assured. Revenues from the sale of canola oil and meal are recognized upon shipment of the goods to the customer.

(h) Stock-Based Compensation:

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is estimated using the Black-Scholes option pricing model. The estimated fair value of each option is recognized over the vesting period as stock based compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any amount in contributed surplus, will be credited to share capital.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investment Tax Credits:

The Province of Saskatchewan provides investment tax credits, which are earned as a result of the purchase of manufacturing and processing (“M&P”) equipment and facilities. The M&P investment tax credits are recorded as a reduction of the related cost of the asset acquired when there is reasonable assurance that they will be realized.

The Company’s claim for investment tax credits for income tax purposes are based on management’s interpretation of the applicable legislation. These amounts are subject to review and acceptance by the Canada Revenue Agency prior to collection.

Research and development investment tax credits, which are earned as a result of incurring qualifying research and development expenditures, are recorded as a reduction of the related expense or cost of the asset acquired when there is reasonable assurance that they will be realized.

The Company’s claim for Scientific Research and Experimental Development (“SR&ED”) deductions and related investment tax credits for income tax purposes are based on management’s interpretation of the applicable legislation in the Income Tax Act (Canada). These amounts are subject to review and acceptance by the Canada Revenue Agency or the Ontario Ministry of Finance prior to collection.

(j) Research and development:

Research costs are expensed as incurred. Development costs are also expensed as incurred unless the future recoverability of this expenditure can be reasonably assured and all criteria required for capitalization are met.

(k) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse.

The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

(l) Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. As a result, all outstanding convertible securities have been excluded from diluted loss per share calculation at December 31, 2010 and 2009. In accordance with the CICA Handbook Section 3500, Earnings Per Share, the loss per share calculation excludes contingently released escrowed shares.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Foreign exchange:

The Canadian dollar is the functional currency used by the Company and its subsidiaries. Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date. Other assets and liabilities are translated at the rate prevailing at the transaction dates. Revenues and expenses denominated in foreign currencies are translated using the rate prevailing at the time the transaction occurs. Exchange gains and losses on translation are included in the determination of net loss for the year.

(n) Financial instruments:

Financial assets and liabilities are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Financial derivative instruments, such as commodity futures contracts, are used by the Company to reduce its exposure to fluctuations in commodity prices. Any change in the value of the derivative instruments is reported in operations. Transaction costs related to financial assets or liabilities classified as held for trading are expensed as incurred. The Company has designated its exchange traded derivatives as held-for-trading. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive loss until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Other financial instruments included in current assets are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost. Transaction costs related to financial assets or financial liabilities, other than those held for trading, adjust the carrying amount of the underlying instrument. These costs are then amortized over the instrument's remaining expected life using the effective interest rate method.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

(o) Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Future Accounting Changes

(i) International Financial Reporting Standards ("IFRS"):

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publically accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal controls over financial reporting and disclosure controls and procedures.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Changes (continued)

(ii) Business Combinations

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to IFRS 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on January 1, 2011 and does not anticipate the standard will have a material impact on the Company's financial statements.

(iii) Consolidations and Non-Controlling Interests

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company will adopt this standard on January 1, 2011 and does not anticipate the standards will have a material impact on the Company's financial statements.

3. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash consists of the following:

	December 31, <u>2010</u>	December 31, <u>2009</u>
	\$	\$
Derivative instruments margin account (i)	78,868	-
Bank of Montreal ("BMO") letter of credit collateral (ii)	<u>1,000,000</u>	<u>1,000,000</u>
	1,078,868	1,000,000
Less: current portion	<u>(78,868)</u>	<u>-</u>
Long-term portion	<u>1,000,000</u>	<u>1,000,000</u>

- (i) Under the terms of the Company's derivative instruments agreement relating to commodity futures contracts, it is required to maintain a margin account which acts as collateral to settle any potential liability associated with its commodity futures contracts.
- (ii) Under the terms of the Farm Credit Canada ("FCC") mortgage, as described in Note 10(ii), the Company was required to provide a \$1,000,000 Letter of Credit to FCC, as a best-practices reserve against project cost contingencies. During the year ended December 31, 2008, BMO agreed to provide a \$1,000,000 Letter of Credit, in favour of FCC, as a vehicle for the FCC contingency reserve. Under the terms of the agreement the Company invested \$1,000,000 in a BMO Guaranteed Investment Certificate as collateral against the Letter of Credit.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

4. INVESTMENT TAX CREDITS RECEIVABLE

Province of Saskatchewan investment tax credits receivable consist of the following:

	December 31, <u>2010</u>	December 31, <u>2009</u>
	\$	\$
Balance, beginning of the year	943,425	210,728
Investment tax credit collected during the year	(951,516)	-
Investment tax credit accrued during the year	2,332,678	732,697
Interest accrued during the year	<u>3,745</u>	<u>-</u>
Balance, end of the year	<u>2,328,332</u>	<u>943,425</u>

During 2010 the total cost of the property, plant and equipment has been reduced by \$2,332,678 (2009 - \$732,697) relating to the accrual of the Province of Saskatchewan investment tax credits earned during the year, as detailed in Note 9.

5. SR&ED CREDITS RECEIVABLE

SR&ED credits receivable consist of the following:

	December 31, <u>2010</u>	December 31, <u>2009</u>
	\$	\$
Balance, beginning of the year	76,689	94,943
SR&ED credits received during the year	(264,007)	(31,863)
SR&ED claims accrued during the year	485,692	13,530
Interest earned on SR&ED credits receivable	<u>-</u>	<u>79</u>
Balance, end of the year	<u>298,374</u>	<u>76,689</u>

During 2010, the Company accrued SR&ED credits in the amount \$485,692 (2009 - \$13,530). The SR&ED credits have been recorded as a reduction of research and development expenditures in the amount of \$429,672 (2009 - \$13,530) and as a reduction of property, plant and equipment in the amount of \$56,020 (2009 - \$Nil), as detailed in Note 9.

6. INVENTORY

Inventory consists of the following:

	December 31, <u>2010</u>	December 31, <u>2009</u>
	\$	\$
Raw materials	153,432	122,024
Finished goods	<u>10,681</u>	<u>76,691</u>
	<u>164,113</u>	<u>198,715</u>

For the year ended December 31, 2010, inventories of \$4,058,304 were expensed and included in cost of goods sold (2009 - \$5,268,865). A write-down of inventory to its net realizable value, during production ramp-up, in the amount of \$86,500, was recognized as an expense and included in cost of goods sold during the year ended December 31, 2010 (2009 - \$224,735 was recognized as an expense and included in the cost of goods sold (\$181,507) and plant commissioning and start-up expense (\$43,228)). There was no reversal of any write-down that is or was recognized as a reduction in the amount of inventory recognized as an expense. The total carrying value of inventory at December 31, 2010 and 2009 is recorded at cost.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

7. EQUIPMENT DEPOSITS

Equipment deposits consist of progress payments to vendors which the Company is, from time to time, required to make during the course of development and construction of its facilities against certain equipment purchases in advance of the delivery of such equipment by the vendors. Upon delivery, the deposits on the equipment in question will be reallocated to property, plant and equipment.

8. INTANGIBLE ASSETS

	<u>December 31, 2010</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	\$	\$	\$
Patents	537,933	100,814	437,119
Trademarks	80,963	8,970	71,993
Regulatory certifications	<u>262,553</u>	<u>14,354</u>	<u>248,199</u>
	<u>881,449</u>	<u>124,138</u>	<u>757,311</u>

	<u>December 31, 2009</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	\$	\$	\$
Patents	449,855	67,260	382,595
Trademarks	51,441	3,430	48,011
Regulatory certifications	<u>152,899</u>	<u>-</u>	<u>152,899</u>
	<u>654,195</u>	<u>70,690</u>	<u>583,505</u>

As at December 31, 2010, intangible assets included patent expenditures with a net book value of \$149,327 (2009 - \$160,264) relating to assets which were acquired by the Company, with the balance of expenditures, in the amount of \$607,984, relating to intangible assets developed by the Company (2009 - \$423,241).

9. PROPERTY, PLANT AND EQUIPMENT

	<u>December 31, 2010</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	\$	\$	\$
Building	10,023,874	366,957	9,656,917
Computer equipment	68,796	36,458	32,338
Computer software	147,273	51,621	95,652
Equipment	53,678,731	1,589,124	52,089,607
Furniture and fixtures	110,699	35,374	75,325
Land	504,880	-	504,880
Land improvements	682,137	21,897	660,240
Leasehold improvements	99,752	83,315	16,437
Website	<u>51,838</u>	<u>27,497</u>	<u>24,341</u>
	<u>65,367,980</u>	<u>2,212,243</u>	<u>63,155,737</u>

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	<u>December 31, 2009</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	\$	\$	\$
Building	5,231,103	83,240	5,147,863
Computer equipment	42,134	18,164	23,970
Computer software	81,221	13,537	67,684
Equipment	15,356,583	906,776	14,449,807
Furniture and fixtures	81,447	16,159	65,288
Land	352,141	-	352,141
Land improvements	85,034	-	85,034
Leasehold improvements	99,752	62,615	37,137
Website	49,688	17,345	32,343
	<u>21,379,103</u>	<u>1,117,836</u>	<u>20,261,267</u>

During 2010 the total cost of the equipment has been reduced by \$2,089,577 (2009 - \$633,279) and the cost of the building has been reduced by \$243,101 (2009 - \$99,418) relating to the accrual of the Province of Saskatchewan investment tax credits earned during the year, as detailed in Note 4.

During 2010 the total cost of the equipment has been reduced by \$56,020 (2009 - \$Nil) relating to the accrual of the Province of Saskatchewan SR&ED tax credit earned during the year, as detailed in Note 5.

During 2010 the total cost of the equipment has been reduced by the amount of \$794,184 (2009 - \$Nil) relating to the discounting of the Agriculture and Agri-foods Canada repayable contribution to its estimated fair value, as detailed in Note 10(iii).

As at December 31, 2010, the balance in equipment included expenditures in the amount of \$44,228,855 (2009 - \$6,298,716) relating to equipment not yet put into commercial use. As at December 31, 2010, the balance in building included expenditures in the amount of \$Nil (2009 - \$1,069,106) relating to assets under construction. No amortization has been taken on these assets.

As at December 31, 2010, the balance in property, plant and equipment included expenditures in the amount of \$3,240,862 (2009 - \$3,501,705) relating to the purchase and construction of the building and equipment which were included in the balance of accounts payable and accrued liabilities.

During 2010 the Company revised its estimates of the projected residual values and useful lives associated with certain pieces of equipment, resulting in an increase in amortization expense in the current and future years of approximately \$34,000 per annum.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

10. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, <u>2010</u>	December 31, <u>2009</u>
	\$	\$
Atlantic Canada Opportunities Agency (i)	500,000	422,828
Farm Credit Canada (ii)	4,208,403	3,329,803
Agriculture and Agri-food Canada (iii)	2,257,879	-
Ag-West Bio Inc. (iv)	<u>300,000</u>	<u>300,000</u>
	7,266,282	4,052,631
Less: current portion	<u>(749,459)</u>	<u>(377,382)</u>
Long-term portion	<u><u>6,516,823</u></u>	<u><u>3,675,249</u></u>

(i) Atlantic Canada Opportunities Agency:

The Company was advanced \$500,000 by the Atlantic Canada Opportunities Agency ("ACOA") as a provisionally repayable contribution. The contribution becomes repayable six months after "project success," as defined in the Contribution Agreement, is achieved. The definition of project success includes any action which indicates the Company is proceeding to establish a full-scale extraction facility. During the year ended December 31, 2007, management announced its plans for the construction of an extraction facility. During the year ended December 31, 2008, the Company completed two private placements raising gross proceeds of \$14,569,750. As a result of these two events, the Company informed ACOA that it believed it had achieved "Project Success" as defined in the Contribution Agreement. For accounting purposes the Company had recorded the liability under the assumption that repayments were expected to commence in July 2008, however the Company did not remit payments pending confirmation of status and payment structure with ACOA. After further discussions, ACOA requested repayment of the contribution in full as the Company was in default of the Contribution Agreement. The Company agreed to repay the full contribution amount of \$500,000 as detailed in Note 19(g).

Balance, December 31, 2008	\$390,880
Add: accrued interest for 2009	<u>31,948</u>
Balance, December 31, 2009	422,828
Add: accrued interest for 2010	<u>77,172</u>
Balance, December 31, 2010	\$500,000
Less: current portion	<u>(500,000)</u>
Long-term portion	<u><u>-</u></u>

The estimated fair value of the loan at January 1, 2007 was \$328,286, discounted at an interest rate of 10%.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

10. LONG-TERM DEBT (continued)

(ii) Farm Credit Canada:

During the year ended December 31, 2008, the Company completed the arrangement of a \$4,500,000 variable rate mortgage provided by FCC to fund the construction of the Company's commercial extraction facility. The mortgage has a 5 year term, ending November 1, 2013, and is amortized over 15 years in blended monthly instalments, including interest at the FCC variable rate plus 3%, commencing December 1, 2009. Under the terms of the mortgage, the Company has provided a \$1,000,000 Letter of Credit to FCC, as a best-practices reserve against project cost contingencies, until the plant is operationally proven, after which FCC may release the reserve requirement at its own discretion (See Note 3(ii)). The facility is secured by a collateral mortgage on the property and a general security agreement with respect to the Company's assets. Under the terms of the mortgage, the Company must meet the following financial covenants, which are measured at the end of every fiscal year: maintain a current ratio of not less than 1.25:1; a debt to equity ratio that will not exceed 1.00:1 and a debt service coverage ratio (calculated by dividing earnings before interest, taxes and amortization by interest expense and the current portion of long-term debt) of not less than 2.0:1. Compliance with the debt service coverage ratio is tested annually commencing December 31, 2011. As at December 31, 2010 the Company is in compliance with the covenants.

As at December 31, 2010, a total of \$4,500,000 has been drawn on the facility.

Balance, December 31, 2008	-
Add: Draws on the facility during 2009	\$3,415,376
Less: Deferred financing charge expenditures	(76,754)
Add: Accretion of deferred financing charges	5,857
Less: Repayments during 2009	<u>(14,676)</u>
Balance, December 31, 2009	3,329,803
Add: Draws on the facility during 2010	1,084,624
Less: Deferred financing charge expenditures	(21,900)
Add: Accretion of deferred financing charges	7,163
Less: Repayments during 2010	<u>(191,287)</u>
Balance, December 31, 2010	4,208,403
Less: current portion	<u>(186,535)</u>
Long-term portion	<u>\$4,021,868</u>

Interest expense on the FCC mortgage totaled \$277,239 for the year period ended December 31, 2010 (2009 - \$143,053).

Deferred financing charges consisting of legal, professional and bank related expenditures that the Company incurred, in connection with securing its long-term debt with FCC, have been netted against the proceeds attributable to the mortgage. These charges are being amortized over the term of the mortgage using the effective interest method. Accretion expense relating to the deferred financing charges is presented as a component of interest on long-term debt on the statement of operations.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

10. LONG-TERM DEBT (continued)

(iii) Agriculture and Agri-food Canada:

During the year ended December 31, 2009, the Company completed the arrangement of a \$2,958,000 repayable contribution by Agriculture and Agri-foods Canada ("AAFC"). The proceeds from the contribution were used for capital equipment, installation, and commissioning for the Company's protein isolate production system at its Saskatoon canola processing plant. The contribution is interest-free, unsecured, and is repayable in ten equal semi-annual instalments beginning April 1, 2013.

In February and March 2010, the Company completed its first two draws on the AAFC repayable contribution, in the amount of \$1,341,495. In June 2010, the Company completed its final draw on the repayable contribution in the amount of \$1,616,505.

Balance, December 31, 2009	-
Add: Draws on the facility	\$2,958,000
Less: Discount to estimated fair value	<u>(794,184)</u>
	2,163,816
Add: accrued interest for 2010	<u>94,063</u>
Balance, December 31, 2010	2,257,879
Less: current portion	<u>-</u>
Long-term portion	<u>\$2,257,879</u>

The loan was discounted to its estimated fair value of \$2,163,816, at an interest rate of 6.25%. The interest rate was estimated based on the interest rate of other loans that the Company has obtained in the market. The balance of the loan was applied as a reduction of Equipment, as detailed in Note 9.

(iv) Ag-West Bio Inc.:

During the year ended December 31, 2008, the Company completed the arrangement of a \$300,000 deferred payment loan from Ag-West Bio Inc. ("Ag-West") to assist with the development costs for canola protein super concentrates and isolates. The loan bears interest at prime plus 2%, to a maximum of 10%, payable monthly. No payments of principal are required on the loan until a commercialization event takes place. A commercialization event is defined as any of the following; i) protein concentrate sales revenue in excess of \$5,000,000 in any fiscal year, ii) initiation of protein isolate sales, iii) December 31, 2011 or iv) a change in control of the Company. Upon the occurrence of the commercialization event the loan will be repayable in 36 blended monthly instalments. The Company will pay Ag-West a royalty of 0.5% of revenues for five years, commencing in 2010, with a proviso that total payments to Ag-West through 2015 on account of principal, interest and royalties will not exceed \$600,000. As at December 31, 2010, \$300,000 has been drawn on the loan. The Company expects a commercialization event to occur in April 2011, therefore repayments are expected to commence in May 2011.

Interest expense on the Ag-West loan totaled \$13,712 for the year ended December 31, 2010 (2009 - \$8,196).

Balance, December 31, 2009 and December 31, 2010	\$300,000
Less: current portion	<u>(62,924)</u>
Long-term portion	<u>\$237,076</u>

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

10. LONG-TERM DEBT (continued)

Future minimum principal repayments of long-term debt are expected to be as follows:

2011	\$749,459
2012	321,714
2013	4,421,733
2014	505,274
Subsequent	<u>1,268,102</u>
	<u>\$7,266,282</u>

11. CAPITAL STOCK

(a) Authorized:

Unlimited number of common shares
Unlimited number of non-voting, 3% cumulative, non-retractable, convertible, redeemable, Class A preferred shares
Unlimited number of Class B, C, D and E preferred shares

(b) Issued:

Common shares:

	<u>Number of shares</u> #	<u>Amount</u> \$
Balance, December 31, 2008	112,343,031	17,384,129
Private placement (i)	10,200,000	5,304,000
Private placement (ii)	12,000,000	15,000,000
Exercise of stock options	2,262,067	589,330
Exercise of stock options – value allocation	-	458,815
Exercise of warrants	21,324,121	8,086,083
Exercise of warrants – value allocation	-	1,571,506
Share issue costs	<u>-</u>	<u>(1,669,947)</u>
Balance, December 31, 2009	158,129,219	46,723,916
Public offering (iii)	9,372,500	17,339,125
Public offering (iv)	15,400,000	30,030,000
Public offering – over-allotment (v)	2,310,000	4,504,500
Exercise of stock options	1,266,416	406,144
Exercise of stock options – value allocation	-	304,269
Exercise of warrants	5,133,440	2,137,832
Exercise of warrants – value allocation	-	471,221
Share issue costs	<u>-</u>	<u>(3,531,890)</u>
Balance, December 31, 2010	<u>191,611,575</u>	<u>98,385,117</u>

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

11. CAPITAL STOCK (continued)

(b) Issued: (continued)

Common shares: (continued)

(i) Private placement:

On May 14, 2009 the Company closed a private placement for the issuance of 10,200,000 common shares at \$0.52 per share for gross proceeds of \$5,304,000.

The Company paid the brokers a cash commission of 7%, or \$371,280, and issued the brokers 612,000 broker warrants. Each broker warrant entitles the holder to acquire one common share of the Company at a price of \$0.55 until November 14, 2010. The fair value of the broker warrants of \$171,360 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 98%; risk-free interest rate of 1.10%; and an expected life of 1.5 years.

(ii) Private placement:

On October 15, 2009 the Company closed a private placement for the issuance of 12,000,000 common shares at \$1.25 per share for gross proceeds of \$15,000,000.

The Company paid the brokers a cash commission of 6%, or \$900,000.

(iii) Public offering:

On March 30, 2010 the Company closed a public offering for the issuance of 9,372,500 common shares at \$1.85 per share for gross proceeds of \$17,339,125.

The Company paid a cash commission of 6% of the gross proceeds, or \$1,040,348 as an underwriting fee.

(iv) Public offering:

On August 24, 2010 the Company closed a public offering for the issuance of 15,400,000 common shares at \$1.95 per share for gross proceeds of \$30,030,000.

The Company paid a cash commission of 6% of the gross proceeds, or \$1,801,800 as an underwriting fee.

(v) Public offering – over-allotment:

On September 2, 2010 the Company closed a 15% over-allotment relating to the August 24, 2010 public offering (Note 11(b)(iv)) for the issuance of 2,310,000 common shares at \$1.95 per share for gross proceeds of \$4,504,500.

The Company paid a cash commission of 6% of the gross proceeds, or \$270,270 as an underwriting fee.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

11. CAPITAL STOCK (continued)

(b) Issued: (continued)

Class A preferred shares:

	Number of shares	Amount
	#	\$
Balance, December 31, 2005	400,000	360,000
Share redemption	<u>(200,000)</u>	<u>(180,000)</u>
Balance, December 31, 2006, 2007 and 2008	200,000	180,000
Share redemption	<u>(200,000)</u>	<u>(180,000)</u>
Balance, December 31, 2009 and 2010	<u> -</u>	<u> -</u>

During 2006, the Company agreed to an early redemption of 200,000 preferred shares for \$100,000. The excess of book value over redemption value of \$80,000 was credited to contributed surplus. The remaining Class A preferred shares outstanding could have been redeemed in full at the rate of \$0.50 per share (\$100,000) on January 30, 2009, the fifth anniversary of the date of issuance.

These shares were classified as a non-controlling interest. The non-controlling interest was valued at the redemption amount plus accrued cumulative dividends. The Company did not redeem the shares at January 30, 2009 and therefore the redemption rate equal to the original price of \$1.00, plus accrued cumulative dividends, was used as the carrying value of the non-controlling interest. During the year ended December 31, 2009, the Company recorded an adjustment to the non-controlling interest to reflect the additional funds required to redeem the preferred shares. The excess of redemption value over book value of \$100,000 was adjusted to the deficit.

On October 15, 2009 the Company redeemed all of its 200,000 Class A preference shares at a redemption price of \$0.50 per share, for total redemption proceeds of \$100,000. In addition, the Company paid \$7,179 of accrued Class A preference share dividends. A gain of \$137,181 was realized on the redemption of the preferred shares and was recorded as an increase to contributed surplus (Note 11(f)).

(c) Escrowed shares:

Pursuant to escrow agreements in accordance with the policies of the TSX Venture Exchange, the following holdings are subject to escrow provisions:

- (i) 1,008,168 of the Company's common shares, with an initial 10% released on the issuance of the final Exchange bulletin ("Initial Release"), and an additional 15% to be released on the dates that are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release; and
- (ii) 17,745,071 of the Company's common shares, with an initial 2.5% released fifteen days after the Initial Release; 2.5% released thirty days after the Initial Release; 5% released on completion of a bona fide commercial contract or contracts supporting the implementation of a full-size extraction facility; 15% released on the later of the 6 month anniversary of the Initial Release or upon completion of financing for the aforementioned commercial extraction facility; 15% released on the later of the 12 month anniversary of the Initial Release or upon the start-up of the aforementioned commercial extraction facility; 15% released on the later of the 18 month anniversary of the Initial Release or upon the achievement of operating breakeven of the aforementioned commercial extraction facility; and 15% released on the dates that are 24 months, 30 months and 36 months following the Initial Release.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

11. CAPITAL STOCK (continued)

(c) Escrowed shares: (continued)

As at December 31, 2010, 2,659,098 shares remained in escrow (2009 – 5,414,951). Pursuant to CICA Handbook Section 3500, Earnings Per Share, the loss per share calculation excludes 2,659,098 escrowed shares which will be released upon meeting the condition of the start-up and operating breakeven of the commercial extraction facility. Subsequent to December 31, 2010 186,348 shares were released from escrow as detailed in Note 19(e).

(d) Stock Options:

The Company has an incentive stock option plan (the “Plan”) whereby the Company may grant to directors, officers, employees and consultants options to purchase Common Shares of the Company. Subject to applicable regulations and annual shareholder approval, the Plan provides for the issuance of stock options to acquire up to 10% of the Company’s issued and outstanding Common Shares, on a rolling basis. Subject to applicable regulations, the terms and conditions, including pricing, term, and vesting, of each option granted under the Plan are determined by the Board of Directors.

As at December 31, 2010, the Company had the following outstanding and exercisable stock options:

<u>Expiry Date</u>	<u>Options Outstanding</u> #	<u>Options Exercisable</u> #	<u>Exercise Price</u> \$
April 13, 2011	135,000	135,000	0.44
July 1, 2011	50,000	35,417	0.56
July 2, 2011	150,000	150,000	0.75
July 19, 2011	84,000	84,000	0.25
August 10, 2011	100,000	100,000	1.44
December 15, 2011	135,472	135,472	0.25
May 11, 2012	817,592	817,592	0.30
August 11, 2012	60,000	60,000	1.40
February 19, 2013	2,717,500	2,717,500	0.30
April 25, 2013	300,000	300,000	0.40
June 19, 2013	100,000	100,000	0.40
January 6, 2014	300,000	300,000	0.41
March 25, 2014	83,334	33,328	0.40
May 20, 2014	565,000	436,512	0.50
July 1, 2014	150,000	100,000	0.60
July 2, 2014	1,800,000	425,000	0.75
November 2, 2014	136,667	72,083	1.57
November 3, 2014	10,000	5,417	1.26
November 17, 2014	60,000	32,500	1.70
December 16, 2014	30,000	16,245	1.94
January 11, 2015	3,081,666	645,619	2.05
January 13, 2015	5,000	2,291	2.05
January 18, 2015	15,625	15,625	2.11
January 28, 2015	150,000	43,750	2.01
February 1, 2015	75,000	25,000	2.04
May 10, 2015	40,000	6,667	1.62
May 14, 2015	40,000	11,250	1.51
June 17, 2015	35,000	5,833	1.72
July 22, 2015	150,000	31,250	1.94
November 17, 2015	600,000	-	2.53
Total	<u>11,976,856</u>	<u>6,843,351</u>	

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

11. CAPITAL STOCK (continued)

(d) Stock Options: (continued)

The weighted average exercise price for options that are exercisable at December 31, 2010 was \$0.62 (2009 - \$0.35).

The weighted average contractual life remaining for outstanding and exercisable options at December 31, 2010 was 3.07 and 2.39 years, respectively (2009 – 3.34 and 2.92 years).

Stock option transactions for 2009 and 2010 were as follows:

	Options #	Weighted Average Exercise Price \$
Balance, December 31, 2008	7,869,130	0.29
Granted	4,015,000	0.72
Exercised	(2,262,067)	0.26
Forfeited	(276,248)	0.32
Expired	<u>(232,501)</u>	0.27
Balance, December 31, 2009	9,113,314	0.48
Granted	4,332,000	2.09
Exercised	(1,266,416)	0.32
Expired	(3,752)	0.67
Forfeited	<u>(198,290)</u>	1.40
Balance, December 31, 2010	<u>11,976,856</u>	1.07

The weighted average grant date fair value of options granted during the year ended December 31, 2010 amounted to \$1.62 per option (2009 - \$0.57). During the year ended December 31, 2010, the weighted average exercise price and grant date fair value of options granted at an exercise price equal to the fair market value were \$2.21 and \$1.37, respectively, per option (2009 - \$0.70 and \$0.51). During the year ended December 31, 2010, the weighted average exercise price and grant date fair value of options granted at an exercise price below the fair market value were \$Nil and \$Nil, respectively, per option (2009 - \$0.61 and \$0.56). During the year ended December 31, 2010, the weighted average exercise price and grant date fair value of options granted at an exercise price above the fair market value were \$2.05 and \$1.61, respectively, per option (2009 - \$0.77 and \$0.60).

The options granted vest in 24 equal amounts with each 1/24 of the common shares underlying the option vesting on first day of the 24 months following the date of grant, except for 1,675,000 options which were granted to Officers, which vest in 24 equal amounts with each 1/24 of the common shares underlying the option vesting on the first day of the 24 months following the date of the first commercial protein isolate shipment from the Company's Saskatoon facility. For options granted to new employees, vesting does not begin until 90 days after the start of employment.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

11. CAPITAL STOCK (continued)

(d) Stock Options: (continued)

The fair value of each option granted was estimated using the Black-Scholes option pricing model and the following weighted average assumptions:

	Year Ended December 31, <u>2010</u>	Year Ended December 31, <u>2009</u>
Risk-free interest rate	2.63%	2.20%
Expected life	5 years	4.55 years
Expected volatility in the market price of the shares	108%	111%
Expected dividend yield	0%	0%

(e) Warrants:

Share purchase warrant transactions for 2009 and 2010 were as follows:

	<u>Warrants</u> #	<u>Weighted Average Exercise Price</u> \$	<u>Grant Date Black-Scholes Valuation</u> \$
Balance, December 31, 2008	25,845,561	0.38	1,871,367
Granted (Note 11(b)(i))	612,000	0.55	171,360
Exercised	<u>(21,324,121)</u>	0.38	<u>(1,571,506)</u>
Balance, December 31, 2009	5,133,440	0.42	471,221
Exercised	<u>(5,133,440)</u>	0.42	<u>(471,221)</u>
Balance, December 31, 2010	<u>-</u>	-	<u>-</u>

(f) Contributed Surplus:

Contributed surplus transactions for 2009 and 2010 were as follows:

Balance, December 31, 2008	\$2,078,620
Stock-based compensation - employees	973,576
Stock-based compensation - non-employees	299,521
Reallocated to capital stock upon option exercise	(458,815)
Gain on redemption of non-controlling interest (Note 11(b))	<u>137,181</u>
Balance, December 31, 2009	\$3,030,083
Stock-based compensation – employees	4,318,897
Stock-based compensation - non-employees	63,886
Reallocated to capital stock upon option exercise	<u>(304,269)</u>
Balance, December 31, 2010	<u>\$7,108,597</u>

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

12. INCOME TAXES

(a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of approximately 31% (2009 – 32%) are as follows.

	<u>2010</u>	<u>2009</u>
	\$	\$
Loss before taxes	<u>(15,055,169)</u>	<u>(8,171,994)</u>
Expected income tax benefit based on statutory rate	(4,612,000)	(2,627,000)
Adjustments to benefit resulting from:		
Stock-based compensation	1,359,000	420,000
Share issue costs	(1,095,000)	(495,000)
Expiry of non-capital losses	29,000	-
Change in tax rates	683,000	895,000
Other	121,000	(55,000)
Valuation allowance	<u>3,515,000</u>	<u>1,862,000</u>
Income tax provision	<u>-</u>	<u>-</u>

(b) Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets and liabilities at December 31 are as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
Future income tax assets (liabilities):		
Non-capital losses	7,227,000	2,946,000
Equipment	(1,457,000)	60,000
SR&ED expenditure pools	1,066,000	787,000
Share issue costs	1,079,000	540,000
Other	<u>(40,000)</u>	<u>27,000</u>
	7,875,000	4,360,000
Valuation allowance	<u>(7,875,000)</u>	<u>(4,360,000)</u>
Net future tax asset (liability)	<u>-</u>	<u>-</u>

(c) Tax Loss Carry-Forwards

As at December 31, 2010, the Company had approximately \$3,687,000 (2009 - \$2,658,000) of federal and Ontario SR&ED expenditures which under certain circumstances, may be utilized to reduce taxable income of future years.

The Company had approximately \$546,000 (2009 - \$546,000) in non-refundable Ontario SR&ED credits, which may be used to reduce taxable Ontario income over the next four years. These credits expire in 2013.

The Company has an undeducted share issue cost balance of approximately \$4,314,000 at December 31, 2010 (2009 - \$2,160,000).

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

12. INCOME TAXES (continued)

(c) Tax Loss Carry-Forwards (continued)

The Company had approximately \$28,055,000 (2009 - \$11,521,000) of non-capital losses in Canada, which may be used to reduce taxable income in future years.

<u>Year of Expiry</u>	<u>Amount</u>
2014	305,000
2015	510,000
2026	657,000
2027	1,354,000
2028	1,840,000
2029	8,971,000
2030	<u>14,418,000</u>
	<u>\$28,055,000</u>

13. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

Changes in non-cash working capital balances for 2009 and 2010 consist of the following:

	<u>2010</u>	<u>2009</u>
	\$	\$
Accounts receivable	281,595	(590,915)
Sales tax recoverable	264,108	(404,777)
Amounts receivable	49,796	21,333
SR&ED credits receivable	(165,665)	18,254
Loan receivable	-	259,482
Prepaid expenses	(21,885)	67,787
Inventory	34,602	(169,355)
Investment tax credits receivable	943,425	-
Accounts payable and accrued liabilities	<u>669,727</u>	<u>566,719</u>
	<u>2,055,703</u>	<u>(231,472)</u>

14. SUPPLEMENTAL CASH FLOW INFORMATION:

Supplemental cash flow information for 2009 and 2010 consist of the following:

	<u>2010</u>	<u>2009</u>
	\$	\$
Interest paid	269,895	139,231
Income taxes paid	-	-
Broker warrants issued on common share issuances	-	171,360
Change in accrued intangible asset expenditures	39,151	130,887
Change in accrued equipment deposit expenditures	506,212	746,300
Change in accrued property, plant and equipment expenditures	260,923	2,540,163
Change in equipment deposits and prepaid plant and equipment expenditures	4,214,222	2,168,688
Investment tax credit applied as a reduction of plant and equipment (Note 4)	2,328,332	732,697
SR&ED credit applied as a reduction of equipment (Note 5)	56,020	-
Loan discount applied as a reduction of equipment (Note 10(iii))	794,184	-

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

15. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

- (a) Included in accounts payable and accrued liabilities is \$7,474 (December 31, 2009 - \$13,869) due to directors and officers of the Company relating to reimbursements for employment expenses. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.
- (b) During the year ended December 31, 2010, the Company made payments totaling \$97,000 (2009 - \$18,750) relating to fees to directors. These amounts are included in office and general on the statement of operations.
- (c) During the year ended December 31, 2010 a fee in the amount of \$25,000 (2009 - \$Nil) was paid to a corporation of which one of the Company's directors is an officer. The amount relates to work in regard to the provision of potential future financing to the Company. As the likelihood of that financing was not determinable, the amount has been expensed to office and general expenses in the statement of operations.

16. COMMITMENTS AND CONTINGENCIES

- (a) The Company is committed to a minimum amount of rental payments under a long-term lease for its premises which expires on December 31, 2011. Minimum rental commitments remaining under the lease are approximately \$153,000. The Company is also responsible for its proportionate share of operating costs.
- (b) The Company has an available overdraft facility in the amount of \$100,000 that was unused as at December 31, 2010.
- (c) During the year ended December 31, 2008, the Company completed the arrangement of a variable rate \$2,500,000 operating line of credit (the "Line"), provided by the BMO to fund growth in working capital requirements once the Company's commercial extraction facility is in production. Interest is payable monthly at the Bank's prime rate plus 1.5%. The facility is subject to 75% margin conditions against accounts receivable and inventory. The facility is primarily secured by the accounts receivable and inventory as well as a general security agreement covering the Company's remaining assets (subject to FCC's first priority). Draws upon the Line and maintenance of the Line are subject to fulfillment by the Company of standard conditions and compliance by the Company with customary credit covenants. In addition, BMO provided a \$1,000,000 Letter of Credit, in favour of FCC, as a vehicle for the FCC contingency reserve as stated in Note 10(ii). The Letter of Credit is subject to an annual commission rate of 1.2%, and will be collapsed when the contingency reserve requirement is waived by FCC. As at December 31, 2010, the Company had a limit of \$108,000 available on the Line, with \$Nil drawn against that balance.
- (d) As at December 31, 2010, the Company is committed to equipment expenditures totaling approximately \$956,000. See Notes 7 and 9.
- (e) The Company is committed to a minimum amount of rental payments under long-term leases of certain equipment which expire on February 1, 2012, April 30, 2012 and July 7, 2012. Minimum rental commitments remaining under the leases are approximately \$147,000, including \$110,000 due within the next year. Minimum rental commitments for successive fiscal years are approximately the following:

2011	\$110,000
2012	<u>37,000</u>
	<u>\$147,000</u>

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

16. COMMITMENTS AND CONTINGENCIES (continued)

- (f) The Company has committed to purchasing an annual amount of 40,000 metric tonnes ("MT") of canola seed from a distributor for a period of 6 years plus 2 consecutive renewal terms of 2 years, commencing December 1, 2009. The canola is used for processing at the Company's Saskatoon plant. The price is determined at a rate that varies with the market price of canola when purchased. Under the terms of the agreement with the distributor, should the Company not purchase the minimum amount in each annual period, the Company will have to pay a penalty calculated as \$12 per MT of canola for each MT under the minimum amount. As at November 30, 2010, the Company had taken delivery of approximately 10,000 MT of canola seed for the annual period commencing December 1, 2009. Under the terms of the agreement, the Company has accrued a penalty in the amount of \$360,000 based on a calculated delivery shortfall of approximately 30,000 MT of canola seed. The penalty has been presented as a component of plant commissioning and start-up expenses in the statement of operations, comprehensive loss and deficit.

As at December 31, 2010 the Company had taken delivery of approximately 400 MT of Canola seed relating to the annual period commencing December 1, 2010.

- (g) The Company is defending a claim by Allmax Nutrition Inc. for trademark infringement relating to the Company's Isolexx trademark. The Company denies the allegations and as such has filed a counterclaim. The Company has not recorded a provision for this contingency since the likelihood and amount of any potential gain or loss cannot be reasonably estimated. Management does not expect any gain or loss to be material.
- (h) The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.
- (i) From time to time, the Company enters into agreements in the normal course of operations. By their nature, these agreements provide for indemnification of counterparties. The varying nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could incur. Historically the Company has made no payments in connection with these indemnification provisions.

17. FINANCIAL INSTRUMENTS

(a) Fair Value of Financial Instruments:

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for accounts receivable, sales tax recoverable, amounts receivable, investment tax credits receivable, SR&ED credits receivable, accounts payable and accrued liabilities, and the current portion of long-term debt on the balance sheet, approximate fair market value because of the limited term of these instruments. The fair value of long-term debt approximates its carrying value.

As at December 31, 2010, the Company's financial instruments that are carried at fair value, consisting of restricted cash equivalents and derivative instruments have been classified as Level 2 within the fair value hierarchy.

As at December 31, 2009, the Company's financial instruments that are carried at fair value, consisting of restricted cash equivalents have been classified as Level 2 within the fair value hierarchy.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

17. FINANCIAL INSTRUMENTS (continued)

(b) Capital Management:

The capital structure of the Company consists of debt and equity. The equity is attributable to shareholders and includes common shares and contributed surplus. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its plant operations, research and development activities, general and administrative expenses, working capital and overall capital expenditures, including those associated with patents, trademarks and the construction and operation of canola processing facilities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

As the Company is currently in the initial operating stages of its development phase, it is dependent on external financing to fund its activities. In order to carry out its business plan, the Company will spend its existing working capital and attempt to raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the years ended December 31, 2009 and 2010. The Company is not subject to externally imposed capital requirements, other than the FCC mortgage covenants and FCC Letter of Credit as described in Note 10(ii) as well as the Line of Credit as described in Note 16(c).

(c) Financial Risk Factors:

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous period.

(i) Credit risk

The Company's credit risk is primarily attributable to cash and receivables included in current assets as well as credit risk associated with equipment deposits. At December 31, 2010, all of the Company's accounts receivable were with one customer. As the Company continues to ramp up production and revenues at its commercial extraction facility, depending on the specific product mix in sales from time to time, the Company may face customer concentrations ranging from 30% to 100% of periodic revenues. The Company monitors the credit risk and credit standing of its customers on a regular basis. Cash is invested in cash accounts and short-term interest-bearing securities issued by Canadian chartered banks, from which management believes the risk of loss to be remote. Sales tax recoverable and SR&ED credits receivable consist of amounts due from the Federal Government of Canada. Investment tax credits receivable consist of amounts due from the Provincial Government of Saskatchewan, Canada.

Management believes that the credit risk concentration with respect to financial instruments included in current assets has been reduced to the extent presently practicable and expects further concentration reductions as production volumes, sales, and product varieties grow.

During the course of development and construction of its facilities, the Company is from time to time required to make progress payments to vendors against certain equipment purchases in advance of the delivery of such equipment by the vendors, thus exposing the Company to the credit risk of the vendor during the fabrication period. Such purchase structures are common in these situations, and the Company looks to mitigate associated risk by selecting large and reputable vendors with strong track records, diversifying purchases across vendors, and managing schedules to minimize fabrication time.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

17. FINANCIAL INSTRUMENTS (continued)

(c) Financial Risk Factors: (continued)

(ii) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had a cash balance of \$16,628,725 (2009 - \$14,101,171) to settle current liabilities of \$6,163,799 (2009 - \$5,869,298). Accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms. See Note 10 for details regarding long-term debt.

(iii) Interest rate risk

The Company has cash balances and interest-bearing debt. The Company's current policy is to invest excess cash in cash accounts and short-term interest-bearing securities issued by Canadian chartered banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company has interest bearing debt with rates that fluctuate with the prevailing prime lending rate in Canada from time to time. The Company closely monitors interest rates to determine the appropriate course of action to be taken by the Company.

(iv) Foreign currency risk

The Company is subject to foreign exchange risk as certain equipment purchases are made in US dollars and Euros ("€"). The Company is therefore subject to gains and losses due to fluctuations in the US dollar and Euro relative to the Canadian dollar. As US dollar and Euro equipment purchase details are finalized through engineering processes, management allocates an appropriate amount of its cash to US dollar and Euro denominated bank or government guaranteed investments as a hedge against its foreign exchange risk. As at December 31, 2010 the Company held USD\$Nil in foreign currency (2009 the Company held USD\$1,158,644) as well as owed USD\$257,131 and €123,888 in accounts payable and accrued liabilities and derivative instruments (2009 - USD\$721,349) and €Nil).

(v) Price risk

The Company is exposed to price risk in respect of its purchase of canola seed for processing, and its sales of canola oil and canola meal. This exposure is typically quantified in an industry standard margin measurement called Crush Margin. Conceptually, Crush Margin is a representation of the per metric tonne excess of commodity output revenues (from oil and meal sales) less input costs (from seed purchases). Pricing of these commodities is determined in real time in actively trading commodity markets, and as such the Company is a "price taker" and has no control or influence over the Crush Margin. When Crush Margins increase, the Company's processing margin increases, and when Crush Margins fall, the Company's processing margin falls. It is not presently possible to quantify the dollar exposure of the Company to Crush Margins, since this is dependent on production volumes and as the Company proceeds through the ramp-up of the various phases of its Saskatoon facility, these production volumes will be variable. The Company does not generally hedge the Crush Margin, but rather attempts to lock in seed prices and oil and meal prices within the same future price window to avoid temporal mismatching of pricing of the underlying commodities. In certain cases, the Company accepts longer term sales orders where pricing fluctuates with posted market rates at the time of delivery, over the term of the order. As part of its commodity price risk management strategy to fix the Crush Margin at the time the order is accepted, the Company will purchase the seed required to fulfil the order at a fixed price and will also enter into an offsetting futures contract that is intended to mitigate exposure to the future fluctuation in commodity sales prices under that sales order.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

17. FINANCIAL INSTRUMENTS (continued)

(c) Financial Risk Factors: (continued)

(v) Price risk (continued)

At the time the price of the delivery is fixed, the appropriate amount of the futures contract is unwound and the gain or loss on the physical delivery should be substantially offset by an opposing loss or gain on the futures contract. The nature of such risk management arrangements is that they cannot generally provide perfect protection, but if well implemented, can provide a substantial mitigation of interim pricing risk. Since these contracts are not accounted for as hedges, the unrealized gain or loss on these contracts has been recorded in operations. During the year-ended December 31, 2010 the Company realized losses of \$8,886 (2009 - \$Nil) on the settlement of the commodity futures contracts. The fair value of the unrealized loss on the commodity futures contracts as at December 31, 2010 was \$53,016 (USD\$53,304) (2009 - \$Nil).

(d) Sensitivity analysis:

Based on management's knowledge and experience in the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period:

Cash is invested in overnight paper at variable rates. Sensitivity to a plus or minus 1% change in rates, based on the current balance of cash, would affect the net loss by plus or minus \$166,000 during a twelve month period.

As at December 31, 2010 the Company held USD\$Nil (CAD\$Nil) in foreign currencies, as well as owed USD\$257,131 (CAD\$255,743) and €123,888 (CAD\$165,006) in accounts payable and accrued liabilities and derivative instruments. A plus or minus 1% change in the Canadian-US exchange rate, based on the current balance held in US dollars, net of amounts owed in US dollars, would affect the net loss by plus or minus \$3,000. A plus or minus 1% change in the Canadian-Euro exchange rate, based on the current balance owed in Euros, would affect the net loss by plus or minus \$2,000.

As at December 31, 2010 the Company owed \$4,594,037 in interest bearing debt with rates that fluctuate with the prevailing prime lending rate in Canada from time to time. A plus or minus 1% change in the interest rate, based on the current balance, would affect the net loss by plus or minus \$46,000 during a twelve month period.

18. CUSTOMER CONCENTRATION

For the year ended December 31, 2010, 100% of the Company's sales and accounts receivable were derived from one customer, who acts as a distributor of the Company's canola oil and canola meal products. Should this customer substantially curtail its dealings with the Company, management is of the opinion that the Company would not be materially adversely affected. Canola oil and meal are commodities, freely saleable in commodity markets, subject to prices in effect at the time. In the event that the customer substantially curtailed its dealings with the Company, management would seek replacement contracts with other market participants relating to brokering the products to market, or alternatively the Company may choose to perform this task internally. In addition, as the Company introduces other planned products to market, such as its canola proteins, the dependence on the current oil and meal customer would be correspondingly reduced.

Continued...

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, the following transactions occurred:

- (a) The Company issued 436,000 stock options with a weighted average exercise price of \$2.39 and a weighted average expiry of 5 years. The options granted vest in 24 equal amounts with each 1/24 of the common shares underlying the option vesting on first day of the 24 months following the date of grant. For options granted to new employees, vesting does not begin until 90 days after the start of employment.
- (b) The Company committed to equipment expenditures totaling approximately \$3,421,000.
- (c) The Company issued 160,000 common shares as a result of the exercise of 160,000 stock options at a weighted average exercise price of \$0.30 for gross proceeds of \$48,000.
- (d) A total of 90,000 unvested stock options were forfeited with a weighted average exercise price of \$2.39.
- (e) Subsequent to receiving approval from the Company's Board of Directors, 186,348 shares were released from escrow.
- (f) The Company purchased and received delivery of approximately 1,600 MT of canola seed pursuant to the contract for its extraction facility as disclosed in Note 16(f).
- (g) The Company repaid the full balance of the ACOA contribution, in the amount of \$500,000 (Note 10(i)).